HUNTINGTON EXPLORATION INC.

ANNUAL REPORT
1998

CONTENTS

Corporate Profile

Huntington Exploration Inc. is in the business of mineral exploration and development in Canada. The shares of Huntington are listed on the Alberta Stock Exchange and trade under the symbol "HEI".

Corporate History

Huntington Exploration Inc. (the Company) was incorporated as 676182 Alberta Ltd. under the laws of Alberta by Articles of Incorporation dated November 28, 1995. On February 1, 1996 the Company changed its name to Goldust Mines Ltd. and subsequently, on July 18, 1997 changed its name to Huntington Exploration Inc. The Company adopted the French name equivalency of Exploration Huntington Inc. on the same date. Pursuant to an agreement between the Company and Croinor Explorations Inc., the Company purchased a portfolio of 12 mineral properties in Canada. The acquisition, which closed on March 29, 1996 included a 50 percent interest in the Croinor gold property located near Val d'Or, Quebec. On April 14, 1996 the Company acquired the remaining 50 percent interest in the Croinor property from Cambior Inc. From mid-1996 through to the spring of 1997, the Company completed a 50,000 ton open pit bulk sampling project on the Croinor property producing 5,332 ounces (oz.) of gold. Three of the Company's principal gold properties were under option to industry partners for further exploration and development in 1998.

NOTICE OF ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting on Wednesday, June 30, 1999 at 11:00 a.m. in the Hamilton Room of the Bow Valley Square Conference Center, Third Floor, 205 - 5 Avenue S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

HUNTINGTON CONTINUED TO OPERATE in the Canadian mineral exploration business in 1998 with significant exploration occurring on the Croinor and Tex-Sol properties in Quebec and on the Mishibishu Lake properties in Ontario. Revenue for the twelve months ended December 31, 1998 was $142,000 compared to revenue of $2,111,00, including gold sales of $2,098,000 in 1997. Funds from operations were $85,000 or $0.01 per share for the period, compared to $167,000 for 1997 or $0.02 per share, while the loss was $163,000 or $0.02 per share for 1998 compared to $432,000 or $0.04 per share in the previous year. Throughout 1998, Huntington continued to conserve cash resources, held overhead expenses to a minimum and limited property holding and acquisition costs. All mineral exploration expenditures incurred on Company properties were made by industry partners under various option agreements.

In August 1997, the Company entered into an option agreement with South-Malartic Explorations Inc. respecting the Croinor gold property (100% Huntington) located near Val d'Or, Quebec. South-Malartic have the right to earn a 70% interest in the property, by incurring exploration expenditures of $1,500,000 over a five year period with a firm commitment to spend $300,000 in the first two years. South-Malartic completed a 28.2 kilometre geophysical survey on the property, which was followed by a 2,157 metre diamond drilling program in 1998. An extensive program is planned for mid-1999. The Croinor property remains a valuable asset to the Company, with significant gold reserves and potential for further exploration to define additional reserves.

In November 1997, Huntington entered into an option agreement with Aur Resources Inc. respecting the Tex-Sol gold property (100% Huntington), also located near Val d'Or, Quebec. Aur had the right to earn a 51% interest in the Tex-Sol property by incurring exploration expenditures of $500,000 over a three-year period. Aur completed a 3,123 metre diamond drilling program in the first half of 1998 and elected not to continue the option past the first year after spending $211,000.

The Macassa Creek and Missing Lake gold prospects, located in the Mishibishu Lake Area of N.W. Ontario (100% Huntington), were optioned to Murgor Resources Inc. in May 1996. Murgor have the right to earn a 50% interest in these properties by incurring exploration expenditures of $460,000 over a four-year period. Murgor began their program in the fall of 1996 by conducting a prospecting and sampling program on the Missing Lake and

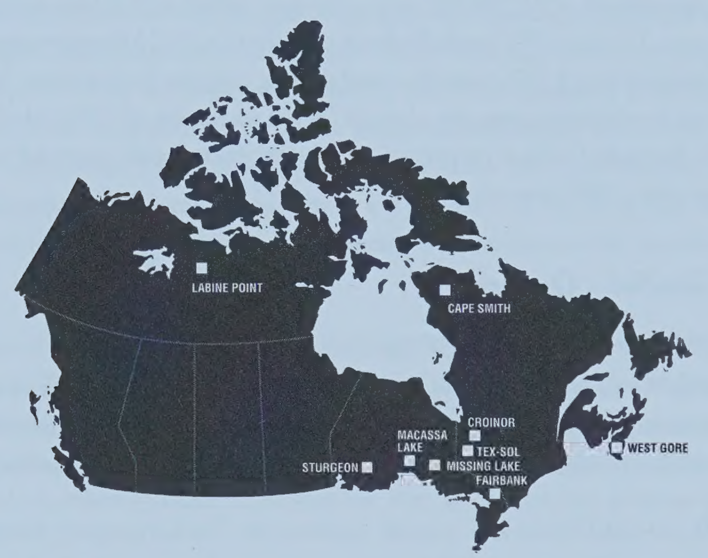
Macassa Creek properties, including other adjoining Murgor lands. In the spring of 1997 an induced polarization survey was completed on the Macassa property to define the sulfide bearing zones over 15 kilometres of the cut grid. In the spring of 1998 Murgor announced the results of their initial diamond drilling program in the area including the Dorset zone, which they consider most encouraging along part of the zone which has been traced for two or three kilometres. A Huntington claim covered under the Murgor agreement is located along the eastern extension of the Dorset zone. The Eagle River Gold Mine is located six kilometres to the south. In mid- 1998 Murgor announced that a letter of agreement had been signed with Battle Mountain Canada Ltd. giving Battle Mountain the right to earn an interest in a portion of Murgor's Mishi Creek property adjacent to the Huntington property. A significant diamond-drilling program has been underway since late 1998 pursuant to that agreement.

With the prevailing low price of gold throughout 1998 and into 1999, the Company continued to seek industry partners to option the Company's properties and conduct further exploration and development to enhance value.

On behalf of the Board,

John A. Pope, P.Eng.
President
May 11, 1999

REVIEW OF MINERAL PROPERTIES



HUNTINGTON HAS NINE MINERAL PROPERTIES in Canada, all of which have undergone geological investigations ranging from grassroots to extensive in previous years.

Croinor Property - Quebec

PROPERTY DESCRIPTION

The Croinor property is located approximately 55 kilometres east of Val d'Or, Quebec and consists of 139 claims covering 2,197 hectares (100% Huntington). The Croinor property has been explored intermittently over the years, both from the surface and underground, commencing in 1944 and continuing through to 1996 when a bulk sample was extracted from surface.

RESERVES

An independent evaluation of the underground potential for the Croinor property was prepared by Bharti Engineering Associates Inc. in an August 1996 report which determined the underground mineable reserve is 335,386 oz at 0.16 oz of gold per ton. This reserve value has been determined pursuant to the National Policy 2A definition.

BULK SAMPLING PROGRAM

Active open pit mining was undertaken in mid-1996 to extract a 50,000 ton bulk sample. The goal of the program was to determine the gold recovery levels and feasibility of larger scale open pit and underground gold mining operations on the property. The bulk sampling was completed by the end of April 1997, yielding 5,332 oz of gold.

The majority of the ore was processed through the AurBel Mill near Val d'Or which yielded a 97% gold recovery. The overall grade of the bulk sample was 2.94 grams per ton (g/t) which is equivalent to 0.095 oz/ton. In mid-1997, with the gold price under US$350/oz, it was not feasible to continue with the open pit operations beyond the bulk sample program or to initiate an underground mining operation on the Croinor property.

EXPLORATION PROGRAM

In August 1997, the Company entered into an option and joint venture agreement with South-Malartic Explorations Inc. South-Malartic have the right to earn a 70% interest in the Croinor property, by incurring exploration expenditures of $1,500,000 over a five-year period, with a firm commitment to spend $300,000 in the first two years. During 1998 South-Malartic completed a 28.2 kilometre geophysical survey on the property, which was followed by a 2,157 metre diamond drilling program from surface. South Malartic have an extensive exploration and development program planned for the remainder of 1999. South Malartic staked a block of claims adjacent to the main Croinor property. During 1998 Huntington exercised its right under the terms of the agreement to acquire a 30% interest.

Tex-Sol - Quebec

PROPERTY DESCRIPTION

The Tex-Sol property is located approximately 18 kilometres east of Val d'Or, Quebec. The property (100% Huntington) consists of 10 claims covering an area of approximately 600 hectares. The Tex-Sol property is located within the same Greenstone Belt as past and producing mines in the general area.

El Sol Gold Mines Ltd. initially explored the Tex-Sol property from 1946 to 1948. During this period 11,920 metres of 28 diamond drill holes were completed over two limited areas on the east side of the land holdings. The property remained inactive until 1986 when Dominion Explorers Inc. evaluated the grounds with geological mapping, ground geophysical surveys and 16 diamond drill holes for a total of 4,988 metres. Four of these holes were drilled within the northeast portion. One hole, T-86-1, yielded an intercept of 42.2 g/t of gold over 3.8 metres.

Potential exists to discover economic mineralization within the sector that lies down-plunge from the known ore at the adjacent Louvicourt Goldfield.

EXPLORATION PROGRAM

In November 1997, Huntington entered into an option agreement with Aur Resources Inc. Aur had the right to earn a 51% interest in the Tex-Sol property, by incurring exploration expenditures of $500,000 over a three-year period with a firm commitment to spend $200,000 in the first year. Beginning in February 1998, Aur Resources Inc. drilled three deep diamond drill holes to investigate the extension of the mineralized envelop defined by the Louvicourt Goldfield A and B zones and tension vein system intersected on the Tex-Sol ground. Aur advised the Company that they would not be continuing with the option beyond the first year after incurring expenditures in excess of $200,000.

Macassa Creek/Missing Lake, Mishibishu Lake Area, Ontario

The Macassa Creek property (100% Huntington) is comprised of 148 contiguous claims, including 124 that are subject to a 1.5% net smelter return. The property was optioned to Noranda Exploration Co. Ltd. between 1988 and 1990. Numerous surface gold anomalies were identified with drilling in the northern portion of the claims identifying three gold-bearing zones. The Missing Lake property is located along the same geological Greenstone Belt as Macassa Creek and consists of 46 contiguous claims (100% Huntington in 45 claims, 50% in 1 claim). Previous reconnaissance geological investigations identified several gold-bearing structures. Gold assays as high as 0.35 oz/ton over 2.6 metres were recorded.

On May 28, 1996 the Company entered into an agreement with Murgor Resources Inc. to option both the Macassa Creek and Missing Lake properties. Pursuant to this agreement Murgor must incur a total of $460,000 in exploration expenditures over a four-year period to earn a 50 percent interest. These properties are located approximately 80 kilometres southeast of the Hemlo Gold Mines in the Mishibishu Lake area, Ontario. Murgor began their program in the fall of 1996 which involved compilation studies, ground geophysics, stripping, sampling and prospecting on the Missing Lake and Macassa Creek properties including other lands offsetting these Company properties. In the spring of 1997 an induced polarization survey was completed on the Macassa property to define the sulfide bearing zones over 15 kilometres of the cut grid. The Birch vein, located approximately one kilometre north-east of the producing Eagle River Gold Mine, is covered by a Missing Lake claim block, and was sampled with 26 grab samples. A new gold occurrence was discovered and may be the extension of the Birch vein. A grab sample ran 8.1 g/Au/t. The Eagle River Gold Mine is a vein type of deposit, which enhances the possible potential of the Birch vein.

In March 1998, Murgor announced the results of their initial diamond drilling program on the Murgor and Huntington properties along the Dorset zone. This is located 6 kilometres north of the Eagle River Gold Mine in the Mishibishu River area. The drilling results were considered most encouraging along part of the zone that had been traced for three kilometres. Further in August 1998, Murgor announced that a letter of agreement had been signed with Battle Mountain Canada Ltd., whereby Battle Mountain can earn an interest in a portion of Murgor's Mishi Creek property.

The Dorset zone, which has been presently traced for a minimum of three kilometres, was drilled in February 1998 by Murgor, with all 14 holes intersecting gold mineralization. The best intersection was 3.8 grams per ton gold over 22.0 metres (0.11 ounces per ton gold over 72.0 feet) in hole MC - 98-09. In February 1999, Murgor announced that Battle Mountain had completed a sixteen hole, 2,881 metre drilling program in December 1998, on Murgor's Mishi Creek property. Battle Mountain reports as follows: "The results from the 1998 drill program continue to indicate that the Dorset zone is a significant gold-bearing horizon. This zone has now been tested along a strike length of at least 2.0 kilometres and drilling has encountered broad altered intervals that contain anomalous quantities of gold over significant widths. To date, the surface work and drilling have located "near" ore grade intersections at two separate locations 500 metres apart. Further drilling is required to gain a better understanding of this zone and its economic potential".

The Dorset zone was previously exposed by two narrow trenches on the western and eastern boundaries of Huntington's single claim. One diamond drill hole was drilled by Murgor in 1998, just inside the east boundary of this claim. The 500 metre section of the Dorset zone, referred to by Battle Mountain, lies approximately 300 metres to the east of this claim that is located along the eastern extension of the Dorset zone with Huntington holding a 50% working interest.

West Gore, Nova Scotia

The West Gore property (100% Huntington) is located in Hants County and is comprised of 16 claims, including 12 that are subject to a 10-percent net-profits interest. The area has been explored and exploited for antimony and gold since the discovery of the main deposit in the early 1880s. The mine produced 3,000 tons of antimony and 70,000 oz of gold between 1884 and 1930. In 1985, 19 holes were drilled to test all known mineralized areas. Five holes tested the Berggren South Zone and resulted in the discovery of a mineralized zone with the best assay being 0.64 oz Au/ton and 8.81 percent Sb across 1.6 feet. Follow-up drilling in 1986 outlined a mineralized zone 650 feet in length, averaging 0.52 oz Au/ton and 6.6 percent Sb over 1.8 feet. Included in this zone is a 7.5 foot wide zone containing 1.04 oz Au/ton and 10.25 percent Sb. A more current study carried out in 1989 concluded that further work was needed to extend and delineate mineralized veins with a mining width of at least four feet.

Fairbank, Ontario

The Fairbank property is located near Sudbury. The Company's 100% interest in the property was transferred to Falconbridge Limited in 1989. Falconbridge is required to pay an advance royalty payment to the Company of $5,000 per year until the year 2008. The Company will receive a 2 percent net smelter return royalty from any future production on the property. The property contains the potential for large deep nickel deposits.

Sturgeon Lake, Ontario

The Sturgeon Lake property is located near Thunder Bay. The Company has a 33% interest in this 80 claim property, which is operated by Minnova Inc. An exploration program was conducted in 1988 involving 5,467 metres of drilling to trace the down-stratigraphy extension of the Mattabi horizons. The diamond drilling encountered significant alteration in every drill hole and minor zones of Zn-Cu stringers. No economic sulfides were encountered. An electromagnetic survey in 1989 identified a target 900 metres below the surface.

Cape Smith, Quebec

Energold Minerals Inc. is the operator of this property located on the north end of the Ungava Peninsula. Huntington holds a 13% interest in the Cape Smith property. Marginal nickel-copper mineralization has been found on this property.

Labine Point, NWT

The Company holds a 50% interest in three mining leases at Labine Point, Great Bear Lake, NWT, under lease to 2002. Falconbridge Ltd., as operator of the leases, holds the remaining 50% interest. During the period 1974 to 1981, Echo Bay Mines Ltd., who owned and operated the adjoining Eldorado Silver-Uranium Mine, optioned the property and carried out exploration consisting of geophysics and diamond drilling.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THROUGHOUT 1998, THE COMPANY conserved its cash resources, kept overhead to a minimum and did not incur any exploration expenditures other than lease and claim renewal and maintenance costs on its own properties. All the exploration and development on the Company's properties was incurred by industry partners. The Mishibishu Lake Area properties, Macassa Creek and Missing Lake, have been under option to Murgor Resources inc. since May 1996. The Croinor property was optioned to South-Malartic Explorations Inc. in August 1997 while the Tex-Sol property was optioned to Aur Resources Inc. in November 1997 when these companies agreed to spend their funds on exploration on each property to earn an interest. Aur elected not to continue with the option on the Tex-Sol property after the first year. These properties remain in good standing and will contribute to the future growth and benefit of the Company.

Revenue and Expenses

Revenue for the twelve months ended December 31, 1998 was $142,000, compared to revenue of $2,111,000 including gold bullion sales of $2,098,000 in 1997. Funds from operations were $85,000 or $0.01 per share for the period compared to $167,000 or $0.02 per share for the prior year, while the loss was $163,000 or $0.02 per share in the year 1998 compared to $432,000 or $0.04 per share in 1997.

Total expenses for the year were $305,302. Mining exploration costs were a negative $196,493 which represents the net of exploration expenses of $81,457 and a Quebec Mining Tax incentive payment of $277,950 with respect to the Croinor gold property bulk sample. Depreciation on office and other equipment was $14,313. General and administration expenses were $139,154 and consisted mainly of consulting fees, travel, share transfer services and office expenses. A write-down on the mineral properties of $294,678 was provided in respect of the surrender of the Avis Lake property and write-down of the Tex-Sol, West Gore, Sturgeon Lake, Fairbank, Cape Smith and Labine Point properties. The write-down on investments was at $49,651 while interest expense was $3,999.

Financial Position

Following completion of the Croinor bulk sample in 1997, equipment was sold realizing proceeds of $280,511.

Long-term debt in the amount of $103,114 relates to the acquisition of the mineral properties from Croinor Explorations Inc. in 1996. The current portion of the long-term debt in the amount of $26,305 consists of a lease/purchase contract incurred as a result of the purchase of equipment acquired to undertake the Croinor bulk sample.

At the end of the year, the Company had $484,538 in cash and deposits and $202,895 in marketable securities.

Year 2000 Issue

Huntington has assessed the risks associated with the Year 2000 issue respecting the implications which will arise due to the fact that most computer hardware and software systems use only two digits rather than four to record the year. On January 1, 2000 many systems could fail or create incorrect data due to misinterpretation of the year. Currently the Company's only in-house use of computer software is its straight-forward accounting program. The Company will close out the 1999 year-end and start a new year in 2000 if the provider of the program has not resolved the problem by that time. The Company is not at significant risk due to the Year 2000 issue.

MANAGEMENT'S REPORT

The accompanying financial statements of Huntington Exploration Inc. have been prepared by management in accordance with generally accepted accounting principles.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information through the balance of this report is consistent with the information presented in the financial statements.

KPMG LLP, independent auditors, have been appointed by the shareholders of Huntington. They have examined the financial statements of the Company for the year ended December 31, 1998 and the auditors' opinion is expressed herein.

The Audit Committee have reviewed these statements with management and the auditors have reported to the Board of Directors. The Board of Directors have approved the financial statements.

John A. Pope, P.Eng. President and Chief Executive Officer	Andrew S. Burgess, C.A. Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Huntington Exploration Inc.

We have audited the consolidated balance sheets of Huntington Exploration Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
January 15, 1999

Consolidated Balance Sheets

December 31, 1998 and 1997

	1998	1997
ASSETS		
Current assets:		
Cash and short-term deposits	$ 484,538	$ 436,860
Investments	202,895	-
Accounts receivable	7,626	57,310
	695,059	494,170
Mineral properties (note 3)	881,901	1,237,678
Capital assets (note 4)	133,061	317,204
	$ 1,710,021	$ 2,049,052
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,906	$ 138,608
Current portion of long-term debt (note 5)	26,305	60,203
	49,211	198,811
Long-term debt (note 5)	103,114	129,418
Provision for site restoration	66,000	66,000
Shareholders' equity:		
Share capital (note 7)	4,481,920	4,481,920
Deficit	(2,990,224)	(2,827,097)
	1,491,696	1,654,823
	$ 1,710,021	$ 2,049,052

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Deficit

Years ended December 31, 1998 and 1997

	1998	1997
Revenue:		
Interest	$ 31,494	$ 12,666
Gain on sale of capital assets	110,681	-
Gold sales	-	2,098,045
	142,175	2,110,711
Expenses:		
Surface mining exploration and sampling costs, net of recoveries	(196,493)	1,646,285
Write-down of mineral properties	294,678	357,000
Write-down of investments	49,651	-
Depreciation	14,313	242,169
General and administrative	139,154	274,071
Interest	3,999	23,345
	305,302	2,542,870
Net loss for the year	(163,127)	(432,159)
Deficit, beginning of year	(2,827,097)	(2,394,938)
Deficit, end of year	$ (2,990,224)	$ (2,827,097)
Loss per share	$ (0.02)	$ (0.04)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Net loss for the year	**$ (163,127)**	$ (432,159)
Items not affecting cash:		
Depreciation	**14,313**	242,169
Write-down of investments	**49,651**	-
Write-down of mineral properties	**294,678**	357,000
Gain on sale of capital assets	**(110,681)**	-
Funds from operations	**84,834**	167,010
Changes in non-cash working capital	**(66,017)**	(140,966)
	18,817	26,044
Financing:		
Repayment of long-term debt	**(60,202)**	(609,833)
Investments:		
Proceeds on disposition of capital assets	**280,511**	509,407
Option payments received on mineral properties	**75,000**	145,000
Acquisition of mineral properties	**(13,902)**	-
Acquisition of capital assets	**-**	(2,309)
Acquisition of investments	**(252,546)**	-
	89,063	652,098
Increase in cash and short-term deposits	**47,678**	68,309
Cash and short term deposits, beginning of year	**436,860**	368,551
Cash and short term deposits, end of year	**$ 484,538**	$ 436,860

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 1998 and 1997

1. INCORPORATION:

On July 18, 1997 the Company changed its name to Huntington Exploration Inc. from Goldust Mines Ltd. (the "Company"). The Company is incorporated under the laws of the Province of Alberta.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Future operations:

The Company has a reasonable expectation that it has adequate resources to continue for the foreseeable future, and accordingly, these financial statements have been prepared on a going concern basis, although additional capital and further business development may be required to achieve profitable operations and positive cash flows on a commercial scale.

(b) Investments:

Investments are stated at the lower of cost and market.

(c) Mineral property interests:

Costs of acquiring mineral properties are deferred until either commercial production is established or the property is abandoned; at that time the costs will be either amortized on a unit of production basis or fully charged to operations.

Proceeds from sale of properties and earn-in arrangements in which the Company has retained an economic interest are credited against property costs and no gain is recorded until all costs have been fully recovered. Periodically, a determination is made by management as to the status of each property. Where a property shows no promise from prior exploration results and is dormant, the claims may be allowed to lapse. At management's discretion, the properties or costs are written off or written down to a nominal value where an interest in claims remains. Management also periodically determines if an exploration property is impaired and whether the carrying value of such property should be written-down and whether exploration costs incurred should be charged against earnings rather than being deferred.

Amounts recorded for mineral properties represent costs incurred to date, net of writedowns, and are not intended to reflect present or future values. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(d) Capital assets:

Capital assets are stated at their cost. Depreciation is provided by the declining balance method at 30% per annum.

(e) Provision for site restoration:

The provision relates to the Croinor property and is the total estimated liability to restore the site.

(f) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year.

3. MINERAL PROPERTIES:

Mineral properties consist of the following:

		1998		1997
Croinor	$	656,901	$	718,000
Tex-Sol		100,000		230,000
West Gore		25,000		100,000
Macassa Creek		50,000		50,000
Missing Lake		50,000		50,000
Avis Lake		-		50,000
Other properties		-		39,678
	$	881,901	$	1,237,678

The Company has interests in the following properties:

(a) Croinor Property, Pershing Township, Quebec:

The Company owns a 100% interest in 139 mineral claims. Five of the claims are subject to a 10% after-payout net profits interest, 92 claims are subject to a 10% after pay-out net profits interest on a 50% interest in the claims and the remaining 50% interest is subject to 5% after-payout net profits interest and 42 claims are subject to a net smelter return of 1.5%. In August 1997, the Company entered into an Option Agreement with South-Malartic Exploration Inc. South-Malartic has the right to earn a 70% interest in the property by incurring exploration expenditures of $1,500,000 over five years with a firm commitment to spend $300,000 in the first two years. During 1998 the Company acquired a 30% interest in 94 claims adjoining the Croinor Property

(b) Tex-Sol Property, Bourlamaque, Quebec:

The Company owns a 100% interest in 10 claims. In November 1997, the Company entered into an Option Agreement with Aur Resources Inc. Aur fulfilled their obligation under the Option Agreement to spend $200,000 in the first year and have since terminated the agreement.

(c) West Gore, Hants Country, Nova Scotia:

The Company owns 100% in an exploration license comprising 16 claims, subject to a 10% net profits interest.

(d) Macassa Creek, David Lakes, Pukaskwa River and Mishubishu Lakes Townships, Ontario:

The Company owns a 100% interest in 148 mineral claims. Of these claims 124 are subject to a 1.5% net smelter return royalty. On May 28, 1996 the Company entered into an Option Agreement with Murgor Resources Inc. Pursuant to the agreement Murgor must incur a total $300,000 in exploration expenditures over a four year period with a total of $50,000 being incurred in the first year to earn a 50% interest in these claims.

(e) Missing Lake, Point Isacor and Mishubishu Township, Ontario:

The Company owns a 100% interest in 46 mineral claims. On May 28, 1996 the Company entered into an Option Agreement with Murgor Resources Inc. Pursuant to this agreement Murgor must incur a total of $150,000 in exploration expenditures over a four year period to earn a 50% interest in 45 of these claims and must incur a total of $10,000 in exploration expenditures over a two year period to earn a 50% interest in one of these claims. Murgor has fulfilled their obligation in respect to the latter claim and now holds a 50% interest in it.

(f) Avis Lake, Red Lake area, Ontario:

The Company surrendered this property during 1998.

(g) Others include the Sturgeon Lake, Labine, Cape Smith and Fairbank properties.

4. CAPITAL ASSETS:

		1998		1997
Mining equipment	$	245,000	$	600,850
Office and other equipment		45,818		45,818
		290,818		646,668
Accumulated depreciation		157,757		329,464
	$	133,061	$	317,204

The Company has mining equipment with a book value of $110,250 (1997 - $110,250) under capital lease at December 31, 1998.

5. LONG-TERM DEBT:

		1998		1997
Capital lease	$	26,305	$	86,507
Note payable		103,114		103,114
		129,419		189,621
Principal payments due within one year		26,305		60,203
	$	103,114	$	129,418

The obligations under the capital lease are as follows:

		1998		1997
1998	$	-	$	64,202
1999		26,751		26,751
		26,751		90,953
Less interest		(446)		(4,446)
	$	26,305	$	86,507

Note payable is without interest or fixed terms of repayment.

6. **INCOME TAXES:**

At December 31, 1998, the Company had estimated income tax losses and resource deductions of approximately $11,125,010 (1997 - $11,451,572) available to reduce future taxable income. Losses of $360,760 and $59,958 do not expire before 2004 and 2005 respectively.

7. **SHARE CAPITAL:**

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

(b) Issued and outstanding:

		Number of Shares		Amount
Balance, January 1, 1997	$	100	$	100
Issued:				
- for mineral properties		5,023,360		1,482,149
- for cash		5,486,932		3,459,324
- share issue costs		-		(459,653)
Balance, December 31, 1997 and 1998		10,510,392	$	4,481,920

(c) Stock options:

At December 31, 1997 the Company had issued stock options to officers for 280,000 shares exercisable at $0.20 per share and 200,000 shares at $1.00 per share all of which were to expire in 2001. During 1998 these stock options were purchased by the Company for $32,000 and cancelled.

8. **FINANCIAL INSTRUMENTS:**

The carrying amount of short-term deposits, accounts receivable and accounts payable approximate the fair value because of the near-term maturity of those instruments.

9. **UNCERTAINTY DUE TO THE YEAR 2000 ISSUE:**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

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Leonard R. DeMelt
Vice-President, Mining,
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John A. Pope
President,
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C. Alan Smith
President,
Aeonian Capital Corporation

William H. Smith
Partner,
McCarthy Tetrault
Barristers & Solicitors

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Chairman

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